Unique Financial Services

AFSC

Annual Report 2001 - 2002

Board of Directors

Executive Officers

Alan Steel, *President and Managing Director*
Andrew Church, *Vice-President, Field Operations*
Rick McConnell, *Vice-President, Research, Information and Development*
Earl Nent, *Vice-President, Commercial*
Dave Schurman, *Vice-President, Finance*
Alex Wilkinson, *Vice-President, Information Technology and Administrative Services*

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Mission Statement

We help customers in the developing small business and agri-industry sectors fulfill their business goals by offering unique financial services.

Unique Financial Services

AFSC

Letter of Transmittal

August 15, 2002

The Honourable Shirley McClellan
Deputy Premier and
Minister of Agriculture, Food and Rural Development
408 Legislature Building
Edmonton, Alberta
T5K 2B6

Minister:

On behalf of the Board of Directors, we are pleased to submit the seventh annual report of the Agriculture Financial Services Corporation.

As required by Section 15 of the Agriculture Financial Services Act (RSA 2000, c. A-12) the report contains a summary of the transactions and affairs of the Corporation, its revenues and the application of its expenditures for the fiscal year ended March 31, 2002. The report also contains audited financial statements, including a balance sheet, a statement of revenue, expense and surplus and a statement of cash flows.

Yours truly,

Alan Steel

Bob Splane
Chairman

Alan Steel
President and Managing Director

Minister's Message

SAFETY NET STABILITY IN A YEAR OF UNCERTAINTY. As Minister of Agriculture, Food and Rural Development and Deputy Premier, it is my privilege to meet regularly with producers and agribusiness across our province.

Many people indicate that the agriculture industry in Alberta is really two stories in one. On a broad level, the numbers suggest that our industry has rarely been stronger. In the calendar year 2001, Alberta posted farm cash receipts of $8.3 billion, or 23% of Canada's total, whereas Alberta's value-added sector contributed $9.9 billion.

The second story is of an industry that is vulnerable to world commodity markets and unpredictable climatic conditions. Many individual farm families are not faring as well as the broad picture might suggest. In 2001-02, AFSC paid out near-record insurance claims of $284.4 million, and on many farms, these payments were critically important in meeting financial obligations. In addition to this, Farm Income Disaster Program (FIDP) payments were $131 million in total, providing vital income protection for 4,200 Alberta farmers facing economic hardship.

AFSC PLAYS A MAJOR ROLE IN AGRICULTURE IN ALBERTA ON AN INDUSTRY-WIDE AND AN INDIVIDUAL LEVEL. Our industry requires comprehensive risk management tools to compete globally, because swings in world commodity markets are otherwise difficult to manage.

I farm with my family in the New Brigden area, so as Minister, I see many issues through a farmer's eyes. If you subtract $415.4 million in crop insurance and FIDP payments from Alberta farm incomes last year, the consequences would be devastating for many families.

At the same time, fiscal reality dictates we must balance what we want with what we can afford. This is why the many innovations pioneered by AFSC – this year and past years – are so valuable. While AFSC remains a vital and effective organization by continually improving their products and services, improvement is always done with an eye towards bringing these enhancements to market in a fiscally responsible manner.

AFSC AND AOC ARE NATURAL BUSINESS PARTNERS, SO IT MAKES SENSE TO COMBINE THEM. Since 1972, the Alberta Opportunity Company (AOC) has provided a range of unique financing options to rural and small businesses in Alberta. This is a key segment of Alberta's economy, but one that sometimes is not served by other financial institutions.

By combining the people, cultures, business products and services of its two predecessor companies, the new AFSC has the increased ability to reach new customer groups and improve service to its existing customers.

I wish to assure Albertans that, under the new AFSC, they will receive the same or better quality of products and services that AFSC and AOC provided individually previous to the merger. This integration was made to enhance delivery of our commercial lending products, reduce the cost of government services and offer those services in a more efficient manner. As Minister, I look forward to seeing the progress made by the new Corporation, and hearing from Albertans on this important development.

On a personal note, I wish to thank Bob Splane and Michael Procter, chairmen of AFSC and AOC respectively, for their insights on the merger. My gratitude also goes out to Albert Klapstein, MLA for Leduc, for his work on the integration of the two organizations. Other important players deserving of recognition are the members of AFSC's Board of Directors who continue to enhance AFSC's business with their valuable contributions.

IN SPITE OF THE PAST YEAR'S CHALLENGES, AGRICULTURE IN ALBERTA IS MOVING FORWARD. Farmers in Alberta lead the world in growing safe, nutritious, affordable food. The agriculture and food industry continues to make a large contribution to the provincial economy, employing 213,000 people and creating billions of dollars in economic impact.

At the same time, we cannot take the success of our industry for granted. Farmers, agribusiness and small businesses continue to look to AFSC for crop insurance, income protection and responsive financing. As Minister, I have every confidence that farmers, agribusiness, the small business sector and AFSC will continue to contribute significantly to the Alberta economy in 2002-03.

Shirley McClellan

Shirley McClellan
Deputy Premier and
Minister of Agriculture,
Food and Rural Development

Chairman's Message

AN UNPRECEDENTED SITUATION. For those who understand agriculture, the current plight of Alberta farmers is indeed alarming. As I write this, drought has destroyed any hope of normal yields for thousands of farmers and ranchers across the majority of the province. Livestock operators are in distress with pastures laid to waste and insufficient wintering feed available. Drought threatens not only agriculture, but also many rural and small businesses that supply the agricultural community. Drought conditions have prevailed for several years in some regions of Alberta and until recently were combined with low grain prices leading to severe hardship for many farmers.

In economic times like these, AFSC's responsive risk management tools and unique financial services play an important role in the lives of Alberta's farm families.

THE MERGER OF AFSC AND AOC IS GOOD NEWS FOR ALBERTA. The year 2001-02 will stand out in the Corporation's history, as AFSC merged with the Alberta Opportunity Company (AOC). This merger will broaden the range of services that Alberta farmers, agribusinesses, and small businesses can access. Completing the integration of these two organizations into a responsive, efficient entity is an important goal for the coming year.

IN THE CURRENT ENVIRONMENT, THE NEW AGRICULTURAL POLICY FRAMEWORK TAKES ON GREAT IMPORTANCE. AFSC has considerable expertise in delivering a variety of risk management and safety net programs. The Corporation stands ready to provide input to both the provincial and federal governments on safety nets and other financial services for agriculture and small business in Alberta. Farmers can depend on AFSC's Board and Management to champion their needs and advocate their interests in improving current programs and developing new risk management products.

IN THE SERVICE OF AGRICULTURE. AFSC performed well for its 30,000 customers in 2001-02, as we continued to lead the industry in providing innovative and responsive risk management tools and unique financial services. Our core businesses of Crop and Hail Insurance, Commercial Lending, Farm Loans and the Farm Income Disaster Program were all improved to meet changing customer needs.

In addition to strong performance in our core businesses, the Corporation's management and staff broke new ground in many areas in 2001-02. For example, the Corporation now uses satellite technology and weather-based insurance products to provide a greater range of crop insurance options. When customers need basic program information around the clock, they can access the new AFSC website www.AFSC.ca.

ONE OF THE KEY ROLES OF THE BOARD IS TO ENSURE THAT AFSC ATTRACTS SENIOR MANAGERS WITH PROVEN TRACK RECORDS. It was with pleasure we announced, subsequent to the end of the 2001-02 fiscal year, that the merged AFSC has a new President and CEO. Alan Steel will head the AFSC team, bringing his extensive expertise in government and agriculture-related businesses to our next challenging phase of the Corporation's development.

Our customers are facing a combination of adverse weather, rising input costs, and competing international agricultural subsidies and trade barriers. This means our Board and Management have their work cut out for them for the coming year. During AFSC's search for a new President, many managers assumed extra duties in order to see AFSC through this transitional time. We thank them for their dedication and commitment, and extend a special thanks to Andrew Church for his leadership as Acting President.

I want to acknowledge Bob Hymas, our Board member from Strathmore, who completed his extended term on our Board this past year. Thank you, Bob, for your valuable contribution to the business of AFSC's Board. Also, on January 1, 2002, our Board welcomed newcomers Art Froehlich (Calgary), Barry Holmes (Rocky Mountain House) and Wayne Wagner (Edmonton). Their expertise has been a welcome contribution to our deliberations. Strong corporate governance will continue to be a vital focus of our Board as we meet new challenges and make a fresh commitment to the merged business of AFSC.

In closing, I want to express our Board's appreciation to our Minister, the Honourable Shirley McClellan, who provides leadership and encouragement to all who are in this challenging business of agriculture and rural development. Her vision and agenda for new solutions are impressive. Thank you, Shirley. You can count on our dedicated assistance.

Bob Splane
Chairman

Governance Practices

Statement of Corporate Governance Practices

AFSC's Board of Directors takes a formal and disciplined approach to corporate governance, patterned on the best practices of Canada's business leaders.

The Board has long felt a strong sense of responsibility on this issue, and over the past several years has formalized and enhanced a number of governance-related processes and procedures. This is to ensure that appropriate checks and balances are established, understood and observed by all.

As one example of enhanced governance practices, the Board has secured training in Administrative Justice. This allows members to achieve an enhanced understanding of their duties and ensure that the financial reporting, performance and standards of the Corporation are reviewed on a regular basis.

The Audit Committee, in particular, increased the frequency of its meetings during the past year. Through such increased diligence, the Committee has continued to review financial forecasting and actual results on a quarterly basis.

These and other measures have been taken to ensure that AFSC achieves the highest standards of corporate governance and performance.

Mandate of the Board

In addition to fulfilling its statutory requirements, AFSC's Board of Directors has identified the following 12 key areas that it must oversee and monitor the following functions:

1. Ensure that the Board is organized with necessary processes to effectively fulfill its mandate;
2. Identify the principal business risks of the Corporation;
3. Protect the Corporation's assets;
4. Establish the strategic course for the Corporation through the annual directional plan;
5. Identify business outcomes and evolve performance expectations and measurement criteria;
6. Ensure that proper internal control mechanisms are in place; ensure the integrity of those internal controls and management information systems;
7. Oversee the management of the Corporation;
8. Monitor performance results and evaluate management performance;
9. Ensure that management development and succession plans are established;
10. Orient new Board members;
11. Develop and monitor a corporate communications plan; and
12. Report results to the Minister and other Corporation stakeholders.

Board Membership

The Board should have the expertise, skills and experience necessary to represent the interests of the Corporation and its stakeholders. The Board is currently composed of eleven members, one of whom is the Deputy Minister of Alberta Agriculture, Food and Rural Development, while the others are outside directors. The Board generally meets monthly to conduct the board business of the Corporation.

Board Committees

Board committees include the Executive Committee, the Audit Committee, the Credit Committee and the Appeal/ Review Committee. The Audit Committee and the Appeal/ Review Committee must be composed of outside directors only. During the 2001-02 fiscal year, the Executive Committee met four times, the Audit Committee met seven times, the Credit Committee met 12 times and Appeal or Review hearings were held 13 times.

Each committee has its own terms of reference, job description and reporting requirements. Briefly stated, the Board committee roles are as follows:

- **Executive Committee:** Conduct urgent Board business between regular Board meetings; review governance practices; review committee structure and membership; review Board performance appraisals; and review budget processes.
- **Audit Committee:** Ensure policies and objectives of the Board are integrated in the budget process; review financial statements and obtain management explanations; review internal audit processes and controls, and meet with external auditors; and review and recommend financial statements to the Board. The formal terms of reference of the Committee were discharged satisfactorily during the year.
- **Credit Committee:** Authorize loans or guarantees that exceed management discretionary limits and recommend loan policy changes to the Board.
- **Appeal/Review Committee:** Hear appeals of insurance contract holders and decide claims within policy and legislation, and hear reviews of farm loan and FIDP applicants and recommend action to the Board.

Board's Expectations of Management

Under the leadership of the President, management is expected to prepare and implement strategic and tactical plans for the Corporation which incorporate the key goals identified in the Board's directional plan. Management is expected to supervise the day to day operations of the Corporation, achieving predetermined measurable results. Management is expected to establish systems that provide information necessary in the daily direction and management of the Corporation.

As part of its governance discipline and practice, the Board has developed a Board orientation process for new members. A Board Governance Handbook has been developed and Board members are encouraged to use it regularly. The Board has also adopted a code of conduct and ethics that is acknowledged in writing annually. As part of the annual Board evaluation, each Board member also completes a Board Performance Evaluation Questionnaire and a self-assessment of their performance as a director.

Management Commentary

The Value of the Corporation

AFSC exists to help Alberta's new and developing businesses in the farm, small business and agri-industry sectors become successful contributors to Alberta's growth and prosperity.

HOW DOES AFSC ADD VALUE? AFSC'S MANDATE INCLUDES MORE THAN DELIVERING LENDING, CROP INSURANCE AND FARM SAFETY NET PRODUCTS. Staff help customers to develop successful business plans, to work out financial difficulties and to establish prudent risk management programs. Timely updates and revisions to insurance and safety net programs assist customers in addressing evolving developments in their environments. AFSC programs reduce the potential for its customers to seek ad hoc assistance programs from government. These are some of the ways AFSC contributes to business development and growth in the province.

Risk Management

Business plan budgets are based on long-term average growing conditions and forecast commodity prices. Continuing drought conditions put these budgets at risk. For example, during the 2001 crop year, indemnities exceeded budget by over $118 million. Of this variance, $52 million was recovered from reinsurers. Drought conditions continue to prevail in parts of the province in 2002 and the Corporation has again reinsured part of its risk.

STRONG INTERNAL CONTROLS, EXPERIENCED ADJUSTING AND SPECIAL INVESTIGATIONS STAFF, SKILLFUL CLAIMS PROCESSORS AND INTERNAL AUDITS are mitigating the risk potential of false and misleading claims from customers. Continuing vigilance in these areas will continue.

Fair treatment, reasonable delegation of responsibility, competitive remuneration and other staff benefits, together with a strong staff commitment to AFSC customers and programs, has resulted in a high job satisfaction level. This translates into low staff turnover and high retention of experience and expertise.

Financial Analysis

This analysis should be read in conjunction with the Corporation's financial statements and the notes to those financial statements.

BECAUSE ONE OF THE MAIN BUSINESSES OF THE CORPORATION IS THE VOLATILE CROP INSURANCE BUSINESS, risks of fluctuations in claim costs are offset through the maintenance of crop insurance and reinsurance funds. To have actuarially sound programs, maintaining funds totaling two to two-and-one-half times average annual premiums has been set as a goal. At March 31, 2002, fund balances totaled $455 million (226% of gross premiums for the 2001 crop year). In addition to these funds, the Corporation also reinsures some of its risk through the reinsurance markets. For 2001-02, the Corporation recovered $52 million from reinsurers.

Because the Corporation is lending to beginning and developing operations, the risk is considered to be relatively high. Therefore, AFSC has significant allowances for doubtful accounts and losses. At March 31, 2002, allowances totaled $28 million, or 3% of outstanding loans and guarantees. Most farm loans are secured by land whereas commercial loans are secured by a combination of land, buildings and equipment. Because commercial loan security is often unique to a particular business, markets for such security may be limited, which has resulted in allowances for commercial loans being set at 4.6% of outstanding loans and guarantees.

THERE IS A RISK TO THE CORPORATION IF THERE ARE SUSTAINED INCREASES IN INTEREST RATES. AFSC MINIMIZES THE RISK on its existing portfolio of customer loans by matching the repayment timing of amounts borrowed with expected repayment timing of amounts loaned. Effective April 1, 2002, the Corporation merged with the Alberta Opportunity Company (AOC). At March 31, 2002, AFSC had $42 million more debt outstanding due in less than five years than loan payments receivable in that same period. On the other hand, AOC had $39 million less debt outstanding due in less than five years than loan payments receivable in that same period. On a consolidated basis, the gap and consequent risk is low.

2001-2002 Corporate Business Plan

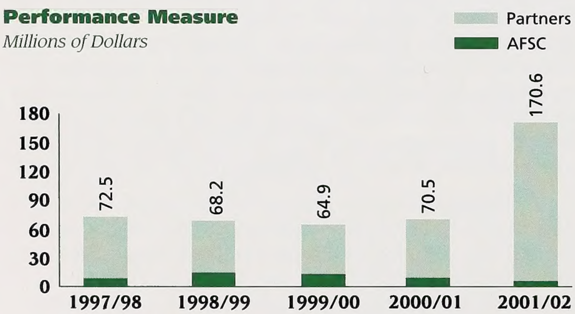
Business Goal 1
AFSC Commercial

AFSC will encourage value-added agriculture through the use of AFSC Commercial services and leveraging AFSC funds.

Progress on Goal:

- value-added investment facilitated was up 142% to $170.6 million, exceeding the $71.5 million target
- 96% of project costs were leveraged from alliance partners and investors, with AFSC's financing at $6.3 million and alliance partners' investment at $164.3 million
- number of value-added businesses assisted was up 53% to 98 businesses, exceeding the target of 83

Performance Measure
Millions of Dollars



Total Investment for Value-Added Business Facilitated by AFSC Commercial.

Performance Measure	1999/00	2000/01	2001/02
Number of loans disbursed to value-added businesses	117	81	66
Number of value-added businesses obtaining financing through AFSC Commercial	79	64	98

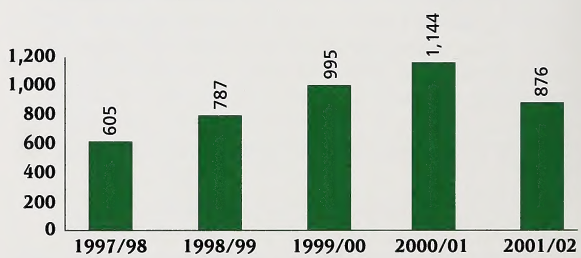
Business Goal 2
Beginning Farmer Loan

To help industry achieve its goals, AFSC will offer unique farm financial services to assist beginning farmers to establish potentially viable farms.

Progress on Goal:

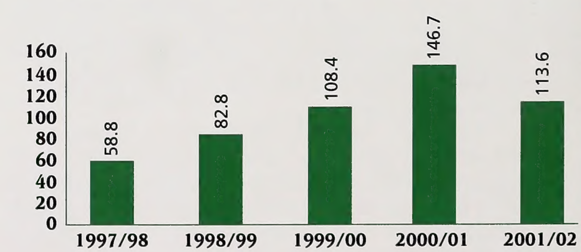
- authorized 876 Beginning Farmer Loans, 14% under the target of 1,000 loans
- total value of Beginning Farmer Loans authorized was $113.6 million, slightly less than the $115 million target
- 1,184 farmers received financial counselling services, compared to 4,018 the previous year; the decrease was primarily due to the wind-up of the AFIDLP II program

Performance Measure



Number of Beginning Farmer Loans Authorized.

Performance Measure
Millions of Dollars



Dollars Advanced Under Beginning Farmer Loans.

Performance Measure	1999/00	2000/01	2001/02
Number of beginning farmers receiving financial counselling services	*	4,018	1,184
Number of financial counselling hours provided to beginning farmers	*	3,714.5	1,353.3
% of Beginning Farmer Loan customers making payments in a timely manner	98.2%	98.8%	99.0%
% of Beginning Farmer Loan portfolio against which security actions have been undertaken	0.3%	0.3%	0.14%

*Note: Performance Measure started in 2000/01.

Business Goal 3

Crop Insurance
(Including Forage and Hail Endorsement)
Straight Hail Insurance
Farm Income Disaster Program

To provide risk management and safety net products that enable the industry to manage risk.

Progress on Goal:

- 75% of eligible acres were operated by insured farmers, matching the target
- insured $1.63 billion in risk for all insurance programs; the target of $1.75 billion was not met, however, due to low commodity prices
- $284.4 million in claims paid for all insurance programs (including Straight Hail, but excluding Waterfowl and Wildlife Damage Compensation)
- $131 million in Farm Income Disaster Program payments made to approximately 4,200 Alberta farmers, primarily for the 2000 claim year

Business Goal 4

Crop Insurance

To continuously research, develop and improve our unique products to meet customers' needs.

Progress on Goal:

- researched and developed seven new or enhanced plans in 2001-02, exceeding the target of five new plans between 2001-04:
  - lack of moisture insurance for native and improved pasture;
  - lack of moisture insurance for silage;
  - area-based program for cereal silage;
  - high-protein wheat program;
  - reinsurance for pasture;
  - expanded satellite imagery program for pasture; and
  - amended coverage for Polish and Argentine canola.

Performance Measure	2000/01	2001/02
% of research and development time spent on research	39%	60%
Number of stakeholder-common issues (relating to changes in AFSC products) identified	7	6
Number of recommendations (or proposals) for new or modified production and income risk management programs and products	9	7

Business Goal 5

AFSC Corporate

To continuously improve customer service delivery to achieve high levels of customer satisfaction.

Progress on Goal:

- all programs exceeded 80% target for overall customer satisfaction:

2001-2002 Corporate Business Plan

- 96.0% of crop insurance customers said they were satisfied or very satisfied with service delivery
- 95.5% of farm lending customers said they were satisfied or very satisfied with service delivery
- 86.6% customer satisfaction among FIDP applicants who applied more than 10 days before deadline
- 77.8% customer satisfaction among FIDP applicants who applied less than 10 days before deadline, greatly exceeding the 60% target

Performance Measure	1999/00	2000/01	2001/02
80% or more of AFSC customers will be satisfied with AFSC service delivery			
• Beginning Farmer Loan	98.5%	97.9%	95.5%
• Farm Income Disaster Program	*	87.3%	86.6%
• Commercial Lending	*	94.0%	N/A
• Crop Insurance	*	*	96.0%

*Note: Performance Measure started in 2000/01.

Business Goal 6
AFSC Corporate

To improve cost efficiency and grow Alberta, AFSC will market its services to other jurisdictions in Alberta, Canada and internationally.

Progress on Goal:

- AFSC sent two staff to the Ukraine in response to a request from the International Finance Corporation (part of the World Bank) that expressed interest in acquiring our expertise to provide agriculture credit in the Ukraine
- two new contracts were secured with AFSC adjusters to verify "right to claim" and verify claims for Agriculture Food and Rural Development (AFRD), generating approximately $80,000 in new revenue
- partnered with private industry (DuPont VIP FarmCare Benefit Program) to help farmers access more insurance coverage through AFSC's network of offices
- met target of realizing two new business opportunities annually

Business Goal 7
AFSC Corporate

To manage AFSC so it is effective, efficient and innovative.

Progress on Goal:

- administration cost for Crop Insurance was 15% of gross premiums collected, which was within industry standards for government organizations in Canada, and compared favorably with Manitoba (12%), Saskatchewan (13%), and Ontario (16%) (administration cost target was to be within 10%)
- administration expenses were within budget
- AFSC assets/employee ratio for farm lending was $5.32 million per employee, better than Canadian industry average of $4.91 million per employee, thus meeting target of being within 10% of comparable organizations
- management/staff ratio was 1:22, exceeding target of 1:17
- FIDP processing time was reduced by 11%, exceeding target for reducing processing time by 5% annually
- met target of obtaining reinsurance for pasture
- saved $300,000 by eliminating adjusting of claims under $5,000

Unique Financial Services

AFSC

Summary of Operations

"AFSC has served Alberta farmers and agribusiness for many years. In order to remain competitive and relevant to our customers, the Corporation will continue to create innovative ways to deliver responsive lending, insurance, risk management and safety net products and services. We look forward to adding value to new small business customers through the merger with AOC."

Alan Steel
President and Managing Director

Summary of Operations

AFSC Insurance – Year in Review

The Canada-Alberta Crop Insurance program is Alberta's major crop protection program.

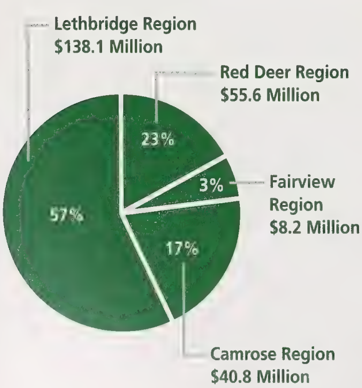
140 plans are available on over 60 different crops through:

- ***Crop Insurance (including Hail Endorsement)***
- ***Straight Hail Insurance***
- ***Forage Insurance***
- ***Waterfowl and Wildlife Damage Compensation***

Crop Insurance

CROP INSURANCE IS AVAILABLE FOR HONEY AND ACREAGE SEEDED TO GRAINS AND OILSEEDS, GRAIN CORN, SUGAR BEETS, VEGETABLES AND A NUMBER OF SPECIALTY CROPS. Crop Insurance covers farmers against production-related risks by offering coverage based on a percentage of long-term average yields. Indemnities, when warranted, are paid at a pre-determined price for any shortfall in production that insured farmers sustain as a result of insurable natural perils. Farmers can elect a pre-determined price option or a projected variable price option at the beginning of the year. For the variable price option, market conditions determine the price option in the late summer.

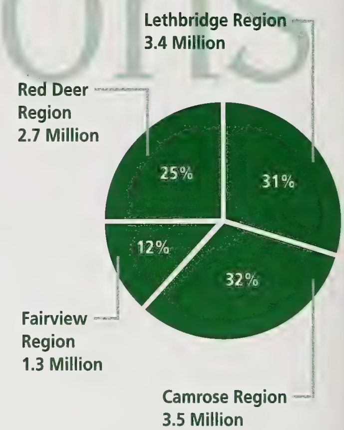
In 2001-02, both the number of Crop Insurance contracts and acres insured in the province were up over the previous year, likely due to the 30% premium reduction offered to farmers in 2001. The total claims amount paid, $242.7 million, was the highest since 1985, a trend that was seen by crop insurance providers across the country during the 2001 crop year. This was the second consecutive year since the early '90s that AFSC paid more in claims than it collected in premiums.



Crop Insurance Losses Paid by Area of Province
(Based on Total $242.7 Million, Including Hail Endorsement)

Highlights include:

- Crop Insurance purchased on 10.9 million acres in 2001, up almost 1 million acres from 2000 levels
- Crop Insurance policyholders insured about 60% of the total provincial seeded acreage in 2001
- total premiums collected increased to $179.7 million from $130.3 million the previous year
- claims paid totaled $242.7 million, significantly higher than the previous year's $152.3 million due to: severe drought in the south and east parts of the province; higher-than-normal hail insurance claims, rain and frost in northern Alberta
- private sector reinsurance companies worldwide reinsured AFSC against extreme crop insurance losses (between 115% and 180% of premiums), which reduced claim costs by about $41 million in 2001



Crop Insurance Acres Insured by Area of Province
(Based on Total of 10.9 Million Acres)

Forage Insurance (Hay and Pasture)

HAY INSURANCE OFFERS A SPECIFIC PRODUCTION GUARANTEE TO PRODUCERS. A Pilot Insurance Program for Native Pasture using satellite imagery was introduced in 2001 in limited areas of southern Alberta. The program was limited to a small area until enough information was gathered to determine the viability of the program.

For 2001-02, overall participation in the Forage Insurance program (hay only) increased compared to the previous year due to continued drought conditions in parts of the province:

Summary of Operations

- participation for hay insurance was up at 1,949 contracts on 452,572 acres, compared to 1,574 contracts on 350,346 acres the previous year
- $6.8 million in Forage premiums collected
- $14.4 million in Forage claims paid on 1,574 contracts, or 81% of contracts
- Forage program reinsurance, through worldwide private sector reinsurers, reduced claim costs by approximately $9 million in 2001

The new Pilot Insurance Program for Native Pasture offered more localized coverage than before, and relied on satellite technology to track growing conditions. As a pilot program, it was available only to producers in the AFSC forage risk areas 1, 2 and 7 in southern Alberta.

Highlights include:

- participation was 677 contracts on 2.1 million acres
- $3.4 million in premiums collected
- $16.1 million in claims paid on 100% of contracts

Hail Insurance

STRAIGHT HAIL INSURANCE IS AVAILABLE FOR FARMERS AS AFFORDABLE ONE-PERIL COVERAGE. Straight Hail can be taken in addition to Crop Insurance coverage, or on its own. Farmers insure up to a maximum dollar coverage per acre, with losses paid based on the percentage of damage that occurs. The Hail program is entirely self-sustaining and operates without government funding.

Sales for Straight Hail Insurance were down slightly in 2001-02, likely because more farmers elected coverage under the Hail Endorsement part of the Crop Insurance program. Claims paid were less than the previous year, but represented above-average payouts for the program.

Highlights include:

- total 2001 contracts were 6,244, down slightly from 7,672 contracts the previous year
- acres covered fell to 3.4 million, down from 4.3 million the previous year
- $15.4 million in Hail premiums collected (not including Hail Endorsement under Crop Insurance)
- $11.2 million in Hail claims paid, down significantly from $32.3 million the previous year
- efficient administration and an adequate operating surplus resulted in a rebate of approximately $2.8 million paid back to 6,244 Hail Insurance customers for 2001

Highlights of Insurance Operations

2001 Crop Year	Contracts	Acres (M.)	Premiums ($M.)	Claims ($M.)
Crop Insurance	15,208	10.9	$ 133.6	$ 203.6
Hail Endorsement*	12,690	9.3	$ 46.1	$ 39.1
Forage (Hay)	1,949	.45	$ 6.8	$ 14.4
Forage (Pasture Pilot)	677	2.1	$ 3.4	$ 16.1
Straight Hail	6,244	3.4	$ 15.4	$ 11.2
Total			$ 205.3	$ 284.4

*Hail Endorsement is purchased as part of the Crop Insurance policy.

Waterfowl and Wildlife Damage Compensation

THE NO-PREMIUM WATERFOWL AND WILDLIFE DAMAGE COMPENSATION PROGRAM COVERS CROP LOSSES CAUSED BY MIGRATORY WATERFOWL, BIG GAME ANIMALS AND UPLAND GAME BIRDS. Payment covers damaged crop that is either standing or in swaths, or stacked hay subject to certain conditions.

Crops in different areas of the province were susceptible to waterfowl and wildlife damage in 2001 resulting in a total of 569 claims totaling $2.6 million, significantly less than the previous year's claim amount of $6.2 million on 1,005 claims. Total claim amount reflects payments to June 15, 2002, but assessment will continue for crops still subject to spring damage.

AFSC Income Protection – Year in Review

The Farm Income Disaster Program (FIDP) is a whole-farm safety net program that provides assistance to farmers whose net margin drops by more than 30%, compared with the average of the best three of the previous five years.

Summary of Operations

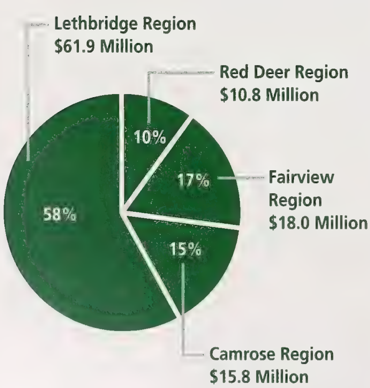
Farm Income Disaster Program

FIDP PROVIDES INCOME SUPPORT TO ACTIVELY FARMING ALBERTA FARMERS WHEN, FOR REASONS BEYOND THEIR CONTROL, THERE IS AN EXTREME REDUCTION IN THEIR FARM INCOME. FIDP is a whole-farm safety net program with all agricultural commodities eligible.

About 4,200 farmers were paid approximately $131 million, or an average of $31,000 per claim paid, primarily for the 2000 claim year.

Highlights include:

- for the 2001 claim year, advance payments of up to 50% of the estimated FIDP entitlement were paid to nearly 150 applicants for a total of nearly $3.2 million, or an average of about $21,300 per claim paid
- the program experienced the earliest completion date ever; for example, as of December 31, 2001, a record 87% of claims had been finalized compared to the previous year's program of 59% as of December 31, 2000
- there was a significant improvement in the number of customers satisfied with the turnaround time on FIDP claims for the 2000 claim year (FIDP processing time was reduced by 11%), resulting in more than 85% of those responding to the 2001 FIDP survey stating they were satisfied with the services provided by AFSC



FIDP Claims Paid by Area of Province
(Based on Total of $106.5 Million Paid as of May 31, 2002 for the 2000 FIDP Claim Year)

AFSC also uses the FIDP application to determine any additional entitlements applicants may have under the Canadian Farm Income Program (CFIP), the national safety net program. CFIP is cost-shared between the federal and provincial governments on a 60/40 basis and is available only for the 2000, 2001 and 2002 claim years

- $3.7 million was paid to 360 Alberta applicants, or an average of $10,000 per claim paid, as additional compensation under the national program

AFSC Farm Lending – Year in Review

AFSC takes a long-term approach to farm lending by offering loan products with competitive interest rates (usually fixed for the life of the loan), incentives to reduce Beginning Farmer Loan principal or payments, and flexible repayment terms. Financial counselling services are provided to farmers needing help when their financial situation changes. AFSC Farm Lending products include:

- ***Beginning Farmer Loan***
- ***Vendor Mortgage Loan***
- ***Developing Farmer Loan***
- ***Alberta Farm Income Disaster Loan Program II (program expired June 30, 2001)***
- ***Alberta Farm Development Loan***
- ***Specific Guarantees (on loans from other lenders)***

Beginning Farmer and Vendor Mortgage Loans

BEGINNING FARMER LOANS PROVIDE LONG-TERM, FIXED-RATE LOANS FOR NEW ENTRANTS INTO FARMING AND THOSE WHO REQUIRE HELP TO EXPAND OR DIVERSIFY THEIR OPERATIONS. A Vendor Mortgage Loan allows the seller of a property/operation (usually, but not always, the buyer's parents) to finance a sale by holding the mortgage for the purchaser, with AFSC acting as the vendor's agent.

Highlights include:

- total loan amounts for Beginning Farmer decreased to $113.6 million, from $146.7 million the previous year
- a total of 876 loans, a decrease of 23% over previous year, with an average loan amount of about $129,680
- several improvements to the Beginning Farmer Loan included a variable interest rate for short-term loans,

Summary of Operations

reporting requirements that are more customer-friendly, and broader purchase eligibility options for farmers

- Vendor Mortgage Loans were down from the previous year with one loan for $156,000

Developing Farmer

DEVELOPING FARMER LOANS HELP PRIMARY PRODUCERS WHOSE FARM OPERATION IS IN A MORE ADVANCED STAGE OF DEVELOPMENT THROUGH LONG-TERM LOANS WITH FIXED RATES OF INTEREST.

Participation in the program declined somewhat in 2001-02:

- AFIDLP II (see below), continued in response to those suffering from agricultural disaster, was accessed as an alternate source of financing
- a total of $4.9 million was authorized for 24 Developing Farmer Loans

Alberta Farm Income Disaster Loan Program II

AFIDLP II was introduced in 2000, as a successor to the original AFIDLP, and was offered in response to hardships experienced by Alberta's producers as a result of agricultural disasters. When it was first offered in 1999, the program was designed as a short-term emergency measure to help producers regain financial viability. It was used by farmers to restore working capital for their farming operations or to provide financial restructuring after an agricultural disaster. Between April 1, 2001 and June 30, 2001 (when the program expired), 54 loans totaled $4.6 million under the AFIDLP II program.

Other Guaranteed Loan Programs

Alberta Farm Development Loan guarantees totaled 1,040 loans for $28.2 million, down from last year's $44.6 million.

Lending Performance

AFSC HAS A WELL-MANAGED PORTFOLIO. Since AFSC lends to beginning and developing operations, the risk is considered relatively high, and as such has significant allowances for doubtful accounts and losses. At year end, allowances totaled $28 million or 3% of outstanding loans and guarantees, the same percentage as the previous year. As well, farm accounts in arrears greater than one year were 1.1% of total loans outstanding, down from 1.3% at the close of the previous year.

Farm Financial Counselling

AFSC LOANS OFFICERS HELPED OVER 1,470 FARMERS WITH FINANCIAL COUNSELLING SERVICES TO GUIDE THEM THROUGH CHALLENGES FACING THEIR FARMS. These farmers received help assessing their financial options, restructuring their debt, or working out alternate arrangements with existing creditors.

AFSC Commercial – Year in Review

AFSC Commercial offers a unique portfolio of innovative financing options, financial strategies and market knowledge to Alberta's agri-industry. This includes companies in food processing, commercial-scale intensive livestock production, nutraceuticals, processing of other products sourced from agriculture (e.g. cosmetics or recycled rubber products), as well as manufacturing and services supporting the industry.

To help meet the capital needs of the rapidly expanding agri-industry, AFSC Commercial collaborates with alliance partners from the private and public sectors, like banks and investors, to facilitate financing through:

- ***Syndicated Loans***
- ***Capital Sourcing***
- ***Financial Re-structuring***
- ***Leasing Services***
- ***Senior Debt Financing***
- ***Junior Debt Financing***

AFSC Commercial also supports the growth of developing companies through non-financing means:

- ***Market Plan Assessments***
- ***Consulting Services***

Summary of Operations

AFSC HAS SUPPORTED THE DEVELOPMENT OF MANY OF ALBERTA'S AGRI-INDUSTRY LEADERS THROUGH THEIR INNOVATIVE APPROACH TO BUSINESS FINANCING. AFSC Commercial looks at every option to get the best possible financial solution for Alberta agri-industry companies.

In 2001-02, AFSC Commercial helped grow the agri-industry by:

- providing financial products to grow value-added businesses by leveraging funds 26:1 with private sector funds, resulting in $170.6 million of value-added investment in 66 projects
- lending directly only $6.3 million, thus meeting the government objective of fiscally-responsible government lending (the other 96% of new project capital, $164.3 million, came from external alliance partners and investors)
- providing consulting services to 55 agribusinesses on a fee-for-service basis

Number of Agri-Businesses AFSC Commercial Assists with Financing Each Year

Business Type	1997/98	1998/99	1999/00	2000/01	2001/02
Food Processors	14	26	43	31	43
Non-food Processors	1	2	7	4	8
Farm Services	10	15	26	24	35
Other	7	8	3	5	12
Total	32	51	79	64	98

AFSC Human Resources – A Year in Review

A successful business needs employees who feel satisfied with their work and valued by their employer. AFSC sees their staff as a valuable resource – whether they are providing a service to a customer in the field, or refining computer skills to enhance business administration.

AFSC is committed to ensuring that staff have the knowledge, skills and abilities to accomplish current and future business plan goals. Learning opportunities are a high priority for the organization and AFSC supports staff on all fronts in their quest for higher education.

During the past year, in-house training included sessions on Supervisory Development, Computer Technology, Dealing with Difficult Customers, Telephone Communication, Adjuster Training and Performance Appraisal. This amounted to approximately 1,475 training days for staff. In addition, the Corporation provided financial support to 38 staff who took evening classes at colleges and universities in Alberta.

The AFSC employee satisfaction rate is up at 89.4% compared to 87.1% the previous year.

Performance Measure	1999/00	2000/01	2001/02
Percentage of AFSC employees who say they are satisfied	86.7%	87.1%	89.4%

Summary of Activities

Summary of Lending

	Authorizations 2001/2002		Authorizations 2000/2001		Accumulated Authorizations June 1972 - March 2002		Active and Outstanding March 31, 2002	
	No.	$M.	No.	$M.	No.	$M.	No.	$M.
Farm Direct Loans								
Beginning Farmer	876	113.6	1,144	146.7	19,771	2,126.1	9,124	713.4
Developing Farmer	24	4.9	29	6.6	547	53.1	196	23.9
Disaster Assistance	54	4.6	352	26.9	3,517	228.1	750	53.5
Other	0	0.0	0	0.0	3,938	194.9	341	7.3
Subtotal	**954**	**$123.1**	**1,525**	**$180.2**	**27,773**	**$2,602.2**	**10,411**	**$798.1**
Farm Guarantees								
Specific Guaranteed Loans	2	0.3	0	0.0	2,392	105.7	6	0.9
Alberta Farm Development Loans	1,040	28.2	1,653	44.6	167,693	2,222.7	5,863	105.8
Vendor Mortgage Loans	1	0.1	3	0.2	93	9.5	57	4.8
Implemented Guaranteed Loans	0	0.0	0	0.0	0	0.0	16	0.3
Subtotal	**1,043**	**$28.6**	**1,656**	**$44.8**	**170,178**	**$2,337.9**	**5,942**	**$111.8**
TOTAL FARM	**1,997**	**$151.7**	**3,181**	**$225.0**	**197,951**	**$4,940.1**	**16,353**	**$909.9**
Commercial								
Direct Loans	34	5.0	34	8.8	535	185.3	171	29.7
Specific Guaranteed Loans	3	1.3	0	0.0	510	206.1	3	0.9
Canada-Alberta Partnership on Agri-food	0	0.0	0	0.0	69	17.4	0	0.0
Local Opportunity Bonds	0	0.0	0	0.0	3	2.1	2	1.1
Federal Lending Sources	15	31.2	12	23.7	77	113.2	36	39.4
Other	14	133.1	35	26.8	123	260.2	2	7.1
Total Commercial	**66**	**$170.6**	**81**	**$59.3**	**1,317**	**$784.3**	**214**	**$78.2**
CORPORATE GRAND TOTAL	**2,063**	**$322.3**	**3,262**	**$284.3**	**199,268**	**$5,724.4**	**16,567**	**$988.1**

Summary of Farm Income Disaster Program

Details of payments made as of May 31, 2002

Claim Year	Number of Claims Received	Number of Claims Paid	Amount Paid in $M.
2001	1,066	628	27.3
2000	5,740	3,535	106.5
1999	6,533	4,471	93.2
1998	8,132	6,544	148.7
1997	3,893	3,143	55.7
1996	4,572	3,625	57.8
1995	6,000	4,951	63.9

The figures for the 2001 claim year do not represent the entire claim year as the deadline for submission of FIDP applications for the 2001 claim year has not passed yet.

Summary of Activities

Summary for Crop Insurance by Crop Year

As of June 15, 2002

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1997	15,464	8,493	899,170	99,972	5,888	52,196	52.2
1998	15,470	9,469	971,948	105,487	5,364	60,806	57.6
1999	14,786	9,449	1,013,983	103,915	3,160	28,957	27.9
2000	14,905	10,013	919,425	97,068	6,445	91,567	94.3
2001	15,208	10,925	$1,252,080	$133,610	7,768	$203,607	152.4

Summary for Hail Endorsement by Crop Year

As of June 15, 2002

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1997	11,154	6,226	691,816	39,154	1,884	17,215	44.0
1998	11,669	7,012	754,070	40,815	2,010	25,309	62.0
1999	11,145	7,106	797,952	37,008	2,036	22,799	61.6
2000	12,115	8,235	784,466	33,250	3,875	60,708	182.6
2001	12,690	9,278	$1,096,089	$46,069	2,485	$39,060	84.8

Summary for Forage Insurance by Crop Year

As of June 15, 2002

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1997	1,641	1,010	15,213	3,618	432	2,084	57.6
1998	2,447	2,740	45,454	9,355	1,780	14,530	155.3
1999	2,377	2,312	41,532	8,774	989	6,229	71.0
2000	1,574	350	19,521	4,323	752	4,950	114.5
2001 (Hay)*	1,949	453	30,443	6,769	1,574	14,369	212.3
2001 (Pasture)**	677	2,056	$18,687	$3,446	677	$16,096	467.1

*Figures are for hay coverage and do not include pasture figures. **Pilot Insurance Program for Native Pasture was introduced in 2001.

Summary for Straight Hail Insurance by Crop Year

As of June 15, 2002

Crop Year	Number of Contracts	Acres ,000	Risk $,000	Premium $,000	Number of Losses	Loss $,000	Loss/ Premium Percent
1997	9,735	4,836	474,113	24,092	1,369	10,239	42.5
1998	9,177	4,824	454,518	22,401	1,174	11,696	52.2
1999	8,129	4,415	424,822	19,832	1,278	11,014	55.5
2000	7,672	4,264	410,067	18,188	2,309	32,312	177.6
2001	6,244	3,406	$332,659	$15,400	1,002	$11,182	72.6

Waterfowl/Wildlife Compensation Program by Crop Year

As of June 15, 2002

Crop Year	Wildlife Number of Losses	Loss $,000	Waterfowl Number of Losses	Loss $,000	Total Number of Losses	Loss $,000
1997	418	2,108	706	3,106	1,124	5,214
1998	142	407	103	252	245	659
1999	155	636	393	1,497	548	2,133
2000	426	3,115	579	3,045	1,005	6,160
2001	403	$1,534	166	$1,039	569	$2,573

Financial Statements

"In a year of high payouts, AFSC managed its business in an efficient, financially responsible manner. Our strong internal controls, prudent reinsurance practices and operational efficiencies have placed AFSC in a secure long-term position. We will continue to manage to the highest financial and administrative standards."

Dave Schurman
Vice-President, Finance

Management's Responsibility *for* Financial Reporting

The preparation of these financial statements, management's discussion and analysis and all other financial information relating to the Corporation contained in this annual report is the responsibility of management. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles, using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and to ensure corporate assets are safeguarded and liabilities are recognized. These control systems are subject to periodic review by the Corporation's internal auditors.

The Alberta Auditor General is responsible to express a professional opinion on these financial statements.

The Board of Directors Audit Committee, composed of non-management directors, oversees management's responsibilities for financial reporting. The Audit Committee meets regularly with management, the internal auditors and the independent auditors to discuss auditing and financial matters, gain assurance that management is carrying out its responsibilities and to review and approve the financial statements. The auditors have full and free access to the Audit Committee.

Alan Steel
President and Managing Director

Dave Schurman, C.A.
Vice-President, Finance

Auditor's Report

AUDITOR GENERAL
Alberta

Alberta Legislature
Office of the Auditor General

To the Board of Directors of the Agriculture Financial Services Corporation

I have audited the balance sheet of the Agriculture Financial Services Corporation as at March 31, 2002 and the statements of revenue, expense and surplus, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2002 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Fred J. Dunn

Fred Dunn
CA
Auditor General
Edmonton, Alberta
May 17, 2002

Balance Sheet

As at March 31, 2002

(in thousands)

Assets

	2002	2001
Cash (Note 2(a))	$ 12,202	$ 43,464
Accounts receivable (Note 4)	15,007	11,643
Due from Province of Alberta	24,765	14,004
Due from Government of Canada	43,599	80,857
Loans receivable (Notes 2(e), 5)	836,028	807,236
Investments (Note 6)	372,983	411,802
Property held for sale (Note 7)	94	174
Capital assets (Note 8)	16,348	16,714
	$ 1,321,026	$ 1,385,894

Liabilities and Surplus

	2002	2001
Accounts payable and accrued liabilities	$ 22,178	$ 40,623
Estimated indemnities payable (Notes 2(e), 9)	77,335	114,570
Due to Crop Reinsurance Fund of Alberta	53,518	53,518
Allowance for losses on loan guarantees (Note 16)	1,665	1,961
Notes payable and debentures (Note 10)	817,409	777,408
Deferred Revenue (Note 11)	23,781	19,415
	995,886	1,007,495
Surplus (Note 3(c))	325,140	378,399
	$ 1,321,026	$ 1,385,894

The accompanying notes and schedules are part of these financial statements.

Approved by the Board:

Bernard Kotelko

Bernard Kotelko
Director

Bob Splane
Chairman

Statement of Revenue, Expense and Surplus

For the year ended March 31, 2002

(in thousands)

	2002 Budget (Note 3(a))	2002 Actual (Schedule 1)	2001 Actual
Revenue			
Premiums from insured persons, net (Notes 12, 13)	$ 56,901	$ 58,887	$ 52,287
Interest	65,612	61,547	57,620
Contribution from Province of Alberta, net (Note 13)	132,538	138,686	75,572
Contribution from Government of Canada, net (Note 13)	114,580	86,623	61,463
Investment income	26,200	33,023	29,988
Fees and other income	2,759	7,491	2,924
Amortization of loan discounts	414	901	548
	399,004	387,158	280,402
Expense			
Indemnities, net (Note 13)	270,095	335,679	205,855
Interest	54,958	48,248	53,251
Administration, Schedule 2	42,358	40,238	37,400
Farm loan incentives	7,364	5,973	6,966
Adjusting, net (Note 13)	6,397	4,653	6,248
Selling commissions	2,227	1,472	1,877
Provision for doubtful accounts and for losses (Note 15)	2,220	4,116	(1,896)
	385,619	440,379	309,701
(Deficiency) excess of revenue over expense before recoveries	13,385	(53,221)	(29,299)
Net recoveries, Schedule 1	–	(38)	(136)
(Deficit) surplus for the year	$ 13,385	(53,259)	(29,435)
Surplus at beginning of year		378,399	407,834
Surplus at end of year		$ 325,140	$ 378,399

Statement of Cash Flows

For the year ended March 31, 2002

(in thousands)

	2002	2001 (Restated)
Operating activities		
Deficit for the year	$ (53,259)	$ (29,435)
Changes not affecting cash	(3,339)	3,039
Changes in assets and liabilities relating to operations	(30,786)	30,897
Net cash (utilized) provided by operating activities[1]	(87,384)	4,501
Investing activities		
Proceeds from repayments of loans receivable and sale of properties	109,308	88,893
Loan disbursements	(138,984)	(182,291)
Purchase of investments	(605,815)	(322,590)
Proceeds on disposal of investments	650,678	347,158
Purchase of capital assets	(2,498)	(2,092)
Proceeds on disposal of capital assets	40	42
Net cash provided (utilized) by investing activities	12,729	(70,880)
Financing activities		
Borrowing from the Province of Alberta	1,490,152	2,200,668
Repayment of borrowing from the Province of Alberta	(1,448,991)	(2,115,956)
Government of Canada funding for capital assets	481	594
Province of Alberta funding for capital assets	1,751	1,371
Net cash provided by financing activities	43,393	86,677
Net (decrease) increase in cash from operating, investing and financing activities	(31,262)	20,298
Cash at beginning of year	43,464	23,166
Cash at end of year	$ 12,202	$ 43,464

[1] Net cash provided by operating activities includes $48,636,000 (2001 $47,893,000) of interest paid.

Notes to the Financial Statements

March 31, 2002

Note 1 Authority and Purpose

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the Agriculture Financial Services Act, Chapter A-12 RSA 2000.

The Corporation provides lending and insurance services and compensation programs. Its core programs and services include loans to beginning farmers, commercial lending, crop insurance, hail insurance and farm income disaster payments. It also delivers other programs and services including loans to developing farmers, disaster loans, loan guarantees, and business planning/counseling. The Corporation acts as the Alberta agent for commercial lending for the federal Farm Credit Corporation.

Note 2 Significant Accounting Policies and Reporting Practices

(a) Cash

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

(b) Investments

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments, when the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(c) Property Held for Sale

Property held for sale is recorded at the lower of cost and estimated net realizable value. Cost is comprised of the balance of the loan at the date on which the Corporation obtains title to the property plus subsequent disbursements related to the property less any revenues or lease payments received.

(d) Capital Assets and Amortization

Capital assets are recorded at cost. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	25 years
Computer equipment	5 years
Software development costs	10 years
Equipment and furniture	10 years
Vehicles	5 years

(e) Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount.

Estimated indemnities payable, recorded as $77,335,000 in these financial statements, is subject to measurement uncertainty. Estimated indemnities payable consist of known liabilities payable at the year end and estimated additional liabilities for indemnities based on historical information about the relationships between the number of claim applications received and the average amount of each application.

The Farm Income Disaster Program may pay a farm business when it experiences a disastrous drop in margins on farm operations. If the program margin for the farming business falls below 70% of the average margin for the best three of the previous five years, an indemnity may be payable. The majority of applications are received after the Corporation's fiscal year end which is the main contributing factor to measurement uncertainty.

The Corporation has recorded a liability to provide for estimated indemnities payable under the Farm Income Disaster Program (see Note 9). Indemnities to be paid may be more or less than the amount recorded because the estimate is made before the majority of applications are received. It is also difficult to predict the estimated indemnities payable because of the wide variation in the impact disasters have on individual farm gross margins. The estimated indemnities payable may be as low as $64,000,000 or as high as $108,000,000. Indemnities payable under the Program are limited to a maximum of $200,000,000 for claims from producers who have year ends in any fiscal year.

Loans receivable, recorded as $836,028,000 in these financial statements, are subject to measurement uncertainty. Loans receivable have been reduced by a provision of $25,961,000 (see Note 5) for losses on loans. The provision estimated by management (see Note 2(1)) could change significantly in the future, leading to a material change in provisions for losses.

(f) Notes Payable and Debentures

Notes payable and debentures are carried at amortized cost. Premiums and discounts on notes payable and debentures are amortized to interest expense using the effective yield method over the period to maturity.

(g) Fair Value of Financial Instruments

Because of the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for any applicable allowance for doubtful accounts. This is considered to be equivalent to fair value and applies to Cash, Accounts receivable, Due from Province of Alberta, Due from Government of Canada, Accounts payable and accrued liabilities, Estimated indemnities payable and Due to Crop Reinsurance Fund of Alberta. Fair values of Loans receivable, Investments, Notes payable and debentures are disclosed in their respective notes.

(h) Reinsurance Ceded

Premiums from insured persons, Contributions from the Province of Alberta, Contributions from the Government of Canada, Indemnities and Adjusting are recorded net of amounts ceded to or recoverable from reinsurers (see Note 13). Estimates of amounts recoverable from reinsurers on indemnities and adjusting expenses are recorded in Accounts Receivable.

(i) Loan Discounting

Loans made under the Alberta Farm Income Disaster program, Canada-Alberta Partnership on Agri-food program, and amounts previously deferred under the Indexed Deferral Plan have been discounted because they involve significant concessionary elements. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

(j) Revenue Recognition

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectibility of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized. An impaired loan is a loan in which there is risk of loss to the Corporation for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

Premiums from insured persons, including federal and provincial government contributions, are recognized as income when invoiced to producers.

Federal and provincial contributions for capital asset acquisitions are recorded as deferred revenue until that revenue is recognized on the same schedule as those capital assets are amortized.

Loan application fees are recognized when the applications are received and loan fees are recognized at the time of loan disbursement. Other fees are recorded when the Corporation completes the applicable service.

(k) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year.

(l) Provision for Losses on Loans and Guarantees

Provisions are established for specifically identified potential losses on loans and guarantees as well as for anticipated but not specifically identified losses. When a loan is identified as impaired, a specific provision is established. Specific provisions are established by deducting the estimated cost to collect from the estimated fair value of security and then discounting the result. Specific provisions are determined in this manner because the amounts and timing of future cash flows cannot be estimated with reasonable reliability. The provision for doubtful accounts is adjusted for the change in the present value of the security held.

The majority of the Corporation's loan portfolio is with beginning and developing agricultural operations and hence, is subject to high risk. The Corporation recognizes this by providing significant general allowances for doubtful accounts. In establishing the general component of the allowance, management estimates loss percentages and applies them to loans receivable balances categorized into risk pools. Risk pools are established based on land value trends, the impact of federal and provincial government programs, international trade criteria, future commodity price trends, climatic conditions and the financial stability of the borrower.

(m) Transactions with Related Parties

All related party transactions have been recorded at the amount of consideration paid or received as agreed to by the related party (see Note 18).

Note 3 Financial Structure

(a) The budget was authorized through the Legislative Assembly which reflects contributions from the Province of Alberta of $136,870,000. The budget was approved by the Board of Directors on January 25, 2001. Subsequently, budgets for interest costs and Farm Income Disaster Program indemnities were revised to reflect more current information, which became available in April 2001, prior to government budgets being presented to the Legislative Assembly. The detailed administration cost budget was approved by the Board of Directors on May 31, 2001.

The contribution from the Province of Alberta was adjusted by $4,332,000 for ceded reinsurance and deferred revenue.

(b) Insurance, Safety Net and Compensation Programs

Programs administered by the Corporation are funded as follows:

	Premiums	Indemnities	Administration Costs
Crop Insurance Coverage up to 50%(1) of risk	20% Producers 40% Alberta 40% Canada	Premiums, Crop Insurance Fund, Private Sector Reinsurance and Government Reinsurance Funds	50% Alberta(3) 50% Canada(3)
Coverage greater than 50% and Hail Endorsement	50% Producers 34% Alberta 16% Canada		
Farm Income Disaster	N/A	58% Alberta(2) 42% Canada(2)	46% Alberta 54% Canada
Hail Insurance	100% Producers	Premiums, Private Sector Reinsurance and Hail Insurance Fund	100% Producers
Wildlife Compensation	N/A	60% Alberta 40% Canada	50% Alberta(3) 50% Canada(3)

(1) Coverage does not include hail endorsement.

(2) Based on the Federal-Provincial Agreement, the Government of Canada and the provincial governments have agreed to fund an agricultural disaster program called the Canadian Farm Income Program (CFIP). It has been further agreed that Alberta's Farm Income Disaster Program (FIDP) will be used to deliver the majority of this assistance in Alberta. Federal funding is subject to an annual cap which could result in Canada paying a lower share of indemnities.

(3) Administration costs are offset by fees and other income before Government of Canada and Province of Alberta funding is provided.

The Crop Insurance program is administered in accordance with an agreement between the Province of Alberta and the Government of Canada. The agreement determines what adequate balances are for the crop insurance and reinsurance funds, the percentage of premiums to be transferred to these funds if required and how indemnities are paid from each of these funds. During the years ended March 31, 2001 and March 31, 2002, no premium transfers were required by the agreement because fund balances were deemed adequate to meet indemnity payments.

(c) In accordance with an agreement between the Province of Alberta and the Government of Canada, the crop insurance fund, which is the major portion of the surplus, is restricted to being used for crop insurance purposes.

(d) Lending Programs

The Corporation's loans are funded by short- and long-term borrowing from the Province of Alberta. An agreement with the Province provides for the Corporation to obtain financing from the Province on the same terms at which the Province borrows that money. The Corporation has a maximum line of credit of $900,000,000. The Corporation's lending operations are funded by customers and by contributions from the Province of Alberta.

Note 4 Accounts Receivable

	2002	2001
	(in thousands)	
Premiums from insured persons:		
Crop Insurance program	$ 10,365	$ 3,117
Hail Insurance program	51	106
Due from Reinsurers	4,899	7,554
Other	784	999
	16,099	11,776
Less allowances for doubtful accounts (Note 15)	(1,092)	(133)
	$ 15,007	$ 11,643

Note 5 Loans Receivable

	2002	2001
	(in thousands)	
Principal and interest due		
Current	$ 831,986	$ 803,645
Arrears	9,405	9,527
Accrued interest	27,373	25,903
	868,764	839,075
Allowance for doubtful accounts (Note 15)	(25,961)	(24,453)
Accrued incentives	(2,677)	(2,630)
Loan discounts	(4,098)	(4,756)
	$ 836,028	$ 807,236

Loans receivable does not include prepaid balances $15,402,000 (2001 $14,072,000) which are included in Accounts payable and Accrued liabilities.

The allowance for doubtful accounts of $25,961,000 (2001 $24,453,000) includes a specific allowance of $1,544,000 (2001 $2,825,000) on impaired loans outstanding of $7,301,000 (2001 $11,217,000), excluding unamortized loan discount. The allowance for doubtful accounts includes a general allowance of $24,417,000 (2001 $21,628,000).

Included in the above loans receivable balance are loans with concessionary terms which, before discounting, have principal amounts outstanding of:

	2002	2001
	(in thousands)	
Alberta Farm Income Disaster Loans	$ 45,540	$ 44,560
Indexed Deferral Plan	4,512	5,314
Canada-Alberta Partnership on Agri-food	–	454
	$ 50,052	$ 50,328

The approximate fair value of loans receivable at March 31, 2002 is $813,732,000 (2001 $758,303,000 restated). Fair value is based on future cash flows discounted by rates equivalent to the market rates on loans with similar terms and credit risk.

Note 6 Investments

	2002	2001
	(in thousands)	
Bonds and debentures:		
Government of Canada, direct and guaranteed	$ 225,134	$ 214,904
Other provincial direct and guaranteed	86,476	124,689
	311,610	339,593
Fair value	*317,310*	*350,957*
Securities:		
Corporate	55,695	66,212
Fair value	*57,623*	*69,735*
	367,305	405,805
Accrued interest	5,678	5,997
	$ 372,983	$ 411,802
Fair value	*$ 374,933*	*$ 420,692*

Fair value is based on quoted market prices including accrued interest.

Note 7 Property Held for Sale

Property held for sale has been acquired as a result of foreclosures, quit claims and other actions.

	2002	2001
	(in thousands)	
Cost of property	$ 611	$ 1,027
Less allowance for losses on realization (Note 15)	(517)	(853)
Estimated net realizable value	$ 94	$ 174

The allowance for losses on realization of $517,000 (2001 $853,000) includes a specific allowance of $517,000 (2001 $853,000) on property balances outstanding of $611,000 (2001 $1,027,000).

Note 8 Capital Assets

	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
		(in thousands)		
Land	$ 280	$ –	$ 280	$ 115
Building	2,919	1,055	1,864	1,981
Computer equipment	5,476	3,792	1,684	1,484
Software development costs	15,278	4,288	10,990	11,735
Equipment and furniture	2,467	1,437	1,030	976
Vehicles	1,324	824	500	423
	$ 27,744	$ 11,396	$ 16,348	$ 16,714

Note 9 Estimated Indemnities Payable

	2002	2001
	(in thousands)	
Farm Income Disaster Program	$ 74,117	$ 110,429
Crop Insurance	2,824	2,929
Wildlife Compensation	160	1,025
Hail Insurance	234	187
	$ 77,335	$ 114,570

Note 10 Notes Payable and Debentures

Notes payable and debentures payable to the Province of Alberta are comprised of the following:

	Calendar Year of Maturity	Weighted Average Interest Rate	March 31 Principal Outstanding 2002	2001
			(in thousands)	
Debenture A	2004	9.95%	$ –	$ 30,120
Debenture D	2006	8.25%	–	21,000
Debenture E	2006 - 2007	7.41%	–	46,200
Debenture L	2001 - 2002	7.37%	–	7,476
Total due to Alberta Heritage Savings and Trust Fund			$ –	$ 104,796
Short-term notes	2001 - 2002	2.45%	$ 100,631	$ 28,716
Note payable 01	2011	7.64%	18,772	20,066
Note payable 02	2010	5.58%	40,413	43,748
Note payable 03	2013	5.43%	40,380	42,845
Note payable 04	2013	5.84%	28,852	30,512
Note payable 05	2016	6.52%	91,727	95,351
Note payable 06	2010	5.94%	23,502	97,798
Note payable 07	2016	5.93%	90,407	24,500
Note payable 08	2016	5.86%	47,260	49,287
Note payable 09	2011	5.56%	149,655	149,576
Note payable 10	2005	5.23%	24,589	25,000
Note payable 11	2003	4.79%	25,782	26,453
Note payable 12	2004	5.05%	25,677	25,963
Note payable 13	2016	5.99%	47,767	–
Note payable 14	2004	4.94%	24,884	–
Note payable 15	2006	5.54%	24,701	–
Total due to Department of Finance			$ 804,999	$ 659,815
			$ 804,999	$ 764,611
Accrued interest			12,410	12,797
			$ 817,409	$ 777,408

Notes Payable include net unamortized discounts of $3,898,000 (2001 $3,126,000).

Principal repayments due in each of the next five years are as follows:

	(in thousands)
Year ending March 31, 2003	$ 138,980
2004	$ 81,326
2005	$ 101,895
2006	$ 99,836
2007	$ 59,129

The approximate fair value at March 31, 2002 is $824,330,000 (2001 $779,103,000). Fair values for debentures and notes are based on the net present value of future cash flows. Each individual cash flow payment is discounted at a rate which matches the term of the cash flow payment and is adjusted for a yield premium to reflect several factors. They include the following:

(a) a liquidity premium to reflect that there is a limited pool of these securities for trading in the market, they would be new to the market and are not direct issues of the Province,

(b) a factor to reflect the blended payment structure of the debentures and notes.

Note 11 Deferred Revenue

	2002	2001
	(in thousands)	
Province of Alberta capital asset grants	$ 8,487	$ 8,415
Government of Canada capital asset grants	5,271	5,732
Deferred Canada-Alberta Partnership on Agri-food (CAPA) contributions	–	3,379
Premiums from insured persons	10,023	1,889
	$ 23,781	$ 19,415

Note 12 Premiums from Insured Persons

The producers' crop insurance premiums have been reduced by 30% from the premiums determined in accordance with the Crop Insurance agreement between the Province of Alberta and the Government of Canada. This was agreed to by the Province of Alberta and the Government of Canada.

Note 13 Reinsurance

In addition to the protection provided by the crop insurance and crop reinsurance funds and the hail insurance fund, the Corporation has obtained reinsurance from non-government sources. For Crop Insurance, the Corporation reinsured a maximum of $118,227,000 of the risk. For Hail Insurance, the Corporation reinsured a maximum of $3,753,000 of the risk.

The figures shown on the Statement of Revenue, Expense and Surplus are net of the following amounts relating to reinsurance ceded to reinsurers.

	2002 Crop Insurance	2001 Crop Insurance	2002 Hail Insurance	2001 Hail Insurance
	(in thousands)			
Gross premiums from insured persons	$ 78,841	$ 54,853	$ 15,397	$ 18,188
Premium discounts/rebates	(25,431)	(17,613)	(3,322)	(2,096)
Ceded to reinsurers	(6,294)	(890)	(304)	(155)
Premiums from insured persons, net	$ 47,116	$ 36,350	$ 11,771	$ 15,937
Premium contributions from Province of Alberta	$ 65,009	$ 42,570	$ –	$ –
Contribution for administration and adjusting expenses	10,703	9,786	–	–
	75,712	52,356	–	–
Ceded to reinsurers	(5,578)	(660)	–	–
Contribution from Province of Alberta, net	$ 70,134	$ 51,696	$ –	$ –
Premium contributions from Federal Government	$ 41,785	$ 35,568	$ –	$ –
Contribution for administration and adjusting expenses	10,703	9,786	–	–
	52,488	45,354	–	–
Ceded to reinsurers	(3,805)	(382)	–	–
Contribution from Federal Government, net	$ 48,683	$ 44,972	$ –	$ –
Gross indemnities	$ 274,125	$ 155,497	$ 11,182	$ 32,308
Reinsurance recoveries	(41,611)	–	–	(4,433)
Indemnities, net	$ 232,514	$ 155,497	$ 11,182	$ 27,875
Gross adjusting expenses	$ 5,891	$ 5,511	$ 389	$ 510
Reinsurance recoveries	(1,951)	–	–	–
Adjusting, net	$ 3,940	$ 5,511	$ 389	$ 510

Note 14 Pensions

The Corporation participates in the multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $1,014,000 for the year ending March 31, 2002 (2001 $974,000).

At December 31, 2001, the Management Employees Pension Plan reported a surplus of $5,338,000 (2000 $170,858,000) and the Public Service Pension Plan reported a surplus of $320,487,000 (2000 $635,084,000). At December 31, 2001, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $399,000 (2000 surplus $180,000).

Note 15 Allowances for Doubtful Accounts and for Losses

	Accounts Receivable	Loans Receivable	Property Held for Sale	Loan Guarantees	Total
	(Note 4)	(Note 5)	(Note 7)	(Note 16)	
		(in thousands)			
Allowances at March 31, 2000	$ 194	$ 26,084	$ 838	$ 2,649	$ 29,765
Transfers to property for sale in 2000-01	–	(533)	533	–	–
Provision for 2000-01	(79)	(707)	(422)	(688)	(1,896)
Write-offs in 2000-01, net of recoveries	18	(391)	(96)	–	(469)
Allowances at March 31, 2001	133	24,453	853	1,961	27,400
Transfers to property for sale in 2001-02	–	(209)	209	–	–
Provision for 2001-02	949	3,070	393	(296)	4,116
Write-offs in 2001-02, net of recoveries	10	(1,353)	(938)	–	(2,281)
Allowances at March 31, 2002	$ 1,092	$ 25,961	$ 517	$ 1,665	$ 29,235

Note 16 Contingencies and Commitments

	2002	2001
	(in thousands)	
Loan guarantees	$ 47,029	$ 56,953
Less allowance for losses (Note 15)	(1,665)	(1,961)
Total contingencies	$ 45,364	$ 54,992
Estimated farm loan incentives	$ 19,427	$ 18,639
Approved, undisbursed loans	25,996	38,907
Reinsurance	30,800	37,525
Total commitments	$ 76,223	$ 95,071

Contingencies under the Alberta Farm Development Loans program comprise $39,081,000 (2001 $49,719,000) of the loan guarantees. Loans made by other financial institutions outstanding under this program at March 31, 2002 were $99,617,000 (2001 $126,186,000).

There are legal actions outstanding against the Corporation in the amount of $218,000 (2001 $329,000) but it is expected that these actions will not result in significant costs to the Corporation.

Note 17 Credit Risk and Interest Risk

(a) Credit Risk

Credit risk is the risk that a debtor may not pay amounts owing thus resulting in a loss. To mitigate this risk, the Corporation has developed the following policies.

Lending staff manage the Corporation's significant credit risk exposure in the beginning and developing agricultural business loans by monitoring accounts very closely. This enables the Corporation to counsel owners of businesses to take quick action if problems start to occur and enables the Corporation to take prompt action to realize on its security. Security requirements for individual loans reflect the degree of risk in each particular operation. Businesses needing specialized and customized equipment, or those involved with new and emerging segments of agriculture, are required to have significantly higher security margins than enterprises in more traditional parts of agriculture. Although these measures do not eliminate the risk, they do reduce the risk of significant losses if there is a province-wide economic downturn in the agri-industry.

The Corporation, through its reinsurance broker, monitors the concentration of credit risk for the insurance contract it holds with each reinsurer (see Note 13) and evaluates the financial condition of each reinsurer. There is no significant reliance on any one reinsurer.

For insurance premiums receivable, a discount is provided for early payment of premiums. Payment arrangements are set for all customers not taking advantage of the offered discount. Outstanding premiums are closely monitored by insurance staff and collection action is taken promptly when required. Insurance contracts cannot be renewed if premiums for the prior year are outstanding at the renewal date.

(b) Interest Risk

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. To mitigate this risk, the Corporation matches the repayment timing of amounts borrowed with the repayment timing of loans made as closely as practical. Longer term repayments are partially financed by funding other than debt.

Interest rates are fixed for the life of Beginning Farmer loans, the major portion of the Corporation's loan portfolio. The Corporation does not set these rates to reflect the cost of money in the market. To maintain the current interest rate for future Beginning Farmer loans if there are significant increases in market interest rates, increases in the contribution from the Province will be required.

The following provides a breakdown of the gaps between the notes payable and debentures and the loan portfolio. Because there are no early repayment penalties on most loan programs, the gap analysis includes an adjustment for expected repayments based on historical patterns.

	Term to Maturity[1]				Not[2] Interest Rate Sensitive	2002 Total	2001 Total
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years			
	(in thousands)						
Direct farm loans	$ 55,601	$ 235,029	$ 257,883	$ 255,217	$ 3,139	$ 806,869	$ 774,843
Yield[3]	7.19%	7.29%	7.34%	7.39%	–	7.30%	7.39%
Commercial loans	$ 4,241	$ 12,156	$ 9,239	$ 2,620	$ 903	$ 29,159	$ 32,393
Yield[3]	7.26%	7.10%	7.42%	6.25%	–	7.18%	8.52%
Total	$ 59,842	$ 247,185	$ 267,122	$ 257,837	$ 4,042	$ 836,028	$ 807,236
Yield[3]	7.19%	7.29%	7.34%	7.38%	–	7.29%	7.44%
Notes payable and debentures							
Province of Alberta	$ 138,981	$ 332,187	$ 238,791	$ 98,939	$ 8,511	$ 817,409	$ 777,408
Yield[3]	5.78%	6.25%	6.55%	6.35%	–	6.21%	5.85%
Net gap before prepayment adjustment	$ (79,139)	$ (85,002)	$ 28,331	$ 158,898	$ (4,469)	$ 18,619	$ 29,828
Estimated prepayment	42,020	79,679	(28,948)	(92,751)	–	–	–
Net gap	$ (37,119)	$ (5,323)	$ (617)	$ 66,147	$ (4,469)	$ 18,619	$ 29,828

The gap positions represent the mismatching of the financing with the loan portfolio at March 31, 2002. The gaps provide an indication of the potential risks to the Corporation if interest rates change. At March 31, 2002 an immediate and sustained increase in interest rates of 1% would increase net interest paid by $21,000 and would increase the net fair market value of loans and financing for the next fiscal year by $4,511,000 based on the net gap before prepayment adjustment. A corresponding decrease in interest rates would decrease the net interest paid and would increase the net fair market value of loans and financing by a similar amount over the same period.

This gap analysis does not include the investment portfolio, which is disclosed separately below. Investments are not included because investments relate to insurance program cash flows which are managed separately from lending program cash flows.

The Corporation's Investment Policy is set with terms that attempt to anticipate the expected future cash flows of the Crop Insurance and Hail Insurance funds. The expected future cash flows are based on historical information modified for current factors that may impact historical results.

The following provides a breakdown of the investment portfolio by term to maturity.

	Term to Maturity[1]				2002 Total	2001 Total
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		
	(in thousands)					
Bonds and debentures	$ –	$ 284,146	$ 15,147	$ 12,317	$ 311,610	$ 339,593
Yield[3]	–	5.08%	5.58%	6.26%	5.15%	5.79%
Corporate Securities	–	55,695	–	–	55,695	66,212
Yield[3]	–	6.07%	–	–	6.07%	6.55%
	–	339,841	15,147	12,317	367,305	405,805
Accrued interest	–	5,148	292	238	5,678	5,997
	$ –	$ 344,989	$ 15,439	$ 12,555	$ 372,983	$ 411,802

(1) For loans, term to maturity reflects the period of time until an interest rate renegotiation date or the maturity date of the loan. For notes payable, term to maturity reflects the contractual maturity date of the debt. The interest rates are fixed until maturity. Repayment is either by semi-annual or annual installments of principal. For investments, term to maturity classifications are based on contractual maturity date of the security.

(2) Includes indexed deferral loans, net impaired loans, general provisions, accrued beginning farmer incentives, accrued interest and unamortized loan discount.

(3) For loans and investments, yield represents the rate which discounts future cash receipts to the carrying amount. For notes payable and debentures, yield represents the rate which discounts the stream of future payments from the reporting date to the next interest rate renegotiation date.

Note 18 Related Party Transactions

Sufficient information is provided throughout the statements to disclose significant related party transactions the Corporation entered into, except for the following:

	2002	2001
	(in thousands)	
Interest expense - Province of Alberta	$ 48,202	$ 52,484
Administration expense - Province of Alberta	2,225	2,425

Note 19 Crop Reinsurance Funds

In accordance with an agreement between the Province of Alberta and the Government of Canada, a percentage of crop insurance premiums are transferred to reinsurance funds (see Note 3(b)). In addition, the agreement stipulates when an amount can be withdrawn from the funds. The provincial fund, called the Crop Reinsurance Fund of Alberta, is invested by the Corporation on behalf of the Province of Alberta and, accordingly, is shown as a liability of the Corporation to the Province. This liability of $53,518,000 (2001 $53,518,000) is equal to the closing surplus in the fund. The federal fund, called the Crop Reinsurance Fund of Canada for Alberta, is held by Canada.

	Crop Reinsurance Fund of Alberta		Crop Reinsurance Fund of Canada for Alberta	
	2002	2001	2002	2001
	(in thousands)		(in thousands)	
Opening surplus	$ 53,518	$ 53,528	$ 77,225	$ 77,235
Current year contributions	–	(10)	–	(10)
Closing surplus	$ 53,518	$ 53,518	$ 77,225	$ 77,225

Note 20 Subsequent Events

Effective April 1, 2002, Alberta Opportunity Company merged with Agriculture Financial Services Corporation. The following are combined balances as at April 1, 2002:

	(in thousands)
Assets	$ 1,449,286
Surplus	368,119

If the corporations had merged at April 1, 2001, the following would have been the combined operating results for the year ended March 31, 2002.

	(in thousands)
Revenue	$ 406,110
Deficit for the year	(47,044)

Note 21 Comparative Figures

The 2001 figures have been reclassified where necessary to conform to 2002 presentation.

Schedule of
Revenue, Expense *and* Surplus

For the year ended March 31, 2002

(in thousands)

	2002 Crop Insurance	2001 Crop Insurance	2002 Farm Income Disaster	2001 Farm Income Disaster	2002 Beginning Farmer Lending	2001 Beginning Farmer Lending
Revenue						
Premiums from insured persons, net (Notes 12, 13)	$ 47,116	$ 36,350	$ –	$ –	$ –	$ –
Interest	146	238	3	22	52,926	49,507
Contribution from Province of Alberta, net (Note 13)	70,134	51,696	60,746	6,332	6,975	8,009
Contribution from Government of Canada, net (Note 13)	48,683	44,972	33,398	14,021	–	–
Investment income	28,781	24,879	532	1,463	273	142
Fees and other income	4,589	138	69	626	980	1,005
Amortization of loan discounts	–	–	–	–	357	52
	199,449	158,273	94,748	22,464	61,511	58,715
Expense						
Indemnities, net (Note 13)	232,514	155,497	89,372	16,609	–	–
Interest	–	–	–	–	42,566	46,469
Administration, Schedule 2	16,914	14,258	5,376	5,855	11,050	9,531
Farm loan incentives	–	–	–	–	5,729	4,956
Adjusting, net (Note 13)	3,940	5,511	–	–	–	–
Selling commissions	–	–	–	–	–	–
Provision for doubtful accounts and for losses (Note 15)	944	(43)	–	–	2,166	(2,241)
	254,312	175,223	94,748	22,464	61,511	58,715
(Deficiency) excess of revenue over expense before recoveries	(54,863)	(16,950)	–	–	–	–
Recoverable from (by) Government of Canada	–	–	–	–	–	–
Recoverable by Province of Alberta	–	–	–	–	–	–
	–	–	–	–	–	–
(Deficit) surplus for the year	(54,863)	(16,950)	–	–	–	–
Surplus (deficit) at beginning of year	330,717	347,667	–	–	–	–
Surplus (deficit) at end of year	$ 275,854	$ 330,717	$ –	$ –	$ –	$ –

2002 Hail Insurance	2001 Hail Insurance	2002 Commercial Lending	2001 Commercial Lending	2002 Wildlife Comp.	2001 Wildlife Comp.	2002 Other	2001 Other	2002 Total	2001 Total
$ 11,771	$ 15,937	$ –	$ –	$ –	$ –	$ –	$ –	$ 58,887	$ 52,287
65	87	2,754	2,615	–	–	5,653	5,151	61,547	57,620
–	–	(1,815)	1,950	1,676	3,543	970	4,042	138,686	75,572
–	–	3,379	3	1,162	2,456	1	11	86,623	61,463
3,218	2,953	105	247	11	93	103	211	33,023	29,988
405	406	703	302	27	31	718	416	7,491	2,924
–	–	46	142	–	–	498	354	901	548
15,459	19,383	5,172	5,259	2,876	6,123	7,943	10,185	387,158	280,402
11,182	27,875	–	–	2,596	5,874	15	–	335,679	205,855
–	–	940	1,722	–	–	4,742	5,060	48,248	53,251
1,037	1,576	4,295	2,955	99	105	1,467	3,120	40,238	37,400
–	–	–	–	–	–	244	2,010	5,973	6,966
389	510	–	–	181	144	143	83	4,653	6,248
1,472	1,877	–	–	–	–	–	–	1,472	1,877
13	(8)	(63)	582	–	–	1,056	(186)	4,116	(1,896)
14,093	31,830	5,172	5,259	2,876	6,123	7,667	10,087	440,379	309,701
1,366	(12,447)	–	–	–	–	276	98	(53,221)	(29,299)
–	–	–	–	–	–	244	(57)	244	(57)
–	–	–	–	–	–	(282)	(79)	(282)	(79)
–	–	–	–	–	–	(38)	(136)	(38)	(136)
1,366	(12,447)	–	–	–	–	238	(38)	(53,259)	(29,435)
47,720	60,167	–	–	–	–	(38)	–	378,399	407,834
$ 49,086	$ 47,720	$ –	$ –	$ –	$ –	$ 200	$ (38)	$ 325,140	$ 378,399

Schedule of Administration Expense

For the year ended March 31, 2002

(in thousands)

	2002 Budget (Note 3(a))	2002 Actual	2001 Actual
Salaries and benefits (Note 14)	$ 24,559	$ 25,039	$ 22,265
Contracted services	5,889	4,791	4,547
Office accommodation costs	2,796	2,818	2,665
Amortization of capital assets	2,700	2,701	2,586
Stationery and supplies	945	938	986
Data processing	917	732	854
Travel and automobile	762	653	693
Telecommunications	807	472	566
Advertising	531	466	331
Professional services	747	355	524
Equipment, rental and maintenance	471	349	366
Training, meetings, seminars, conferences	437	278	265
Directors' fees and expenses	332	267	272
Postage and freight	199	182	307
Insurance	110	78	89
Grain grading	84	53	62
Bank charges	20	49	7
Collection commissions	52	17	15
	$ 42,358	$ 40,238	$ 37,400

Schedule of Salaries and Benefits

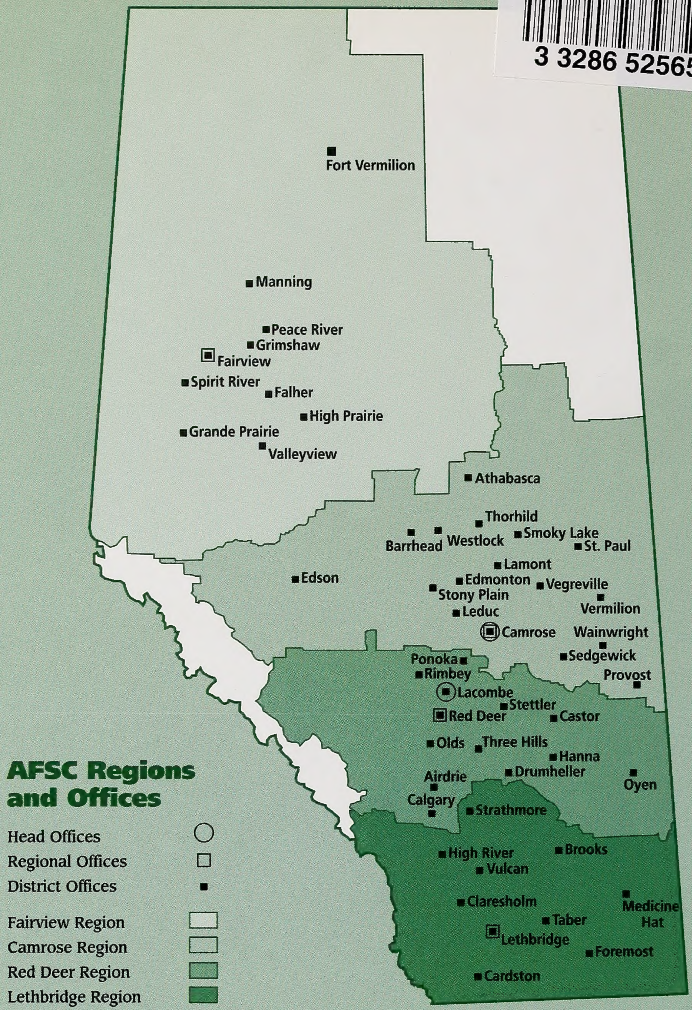
For the year ended March 31, 2002

(in thousands)

	2002			2001
	Salary and Wages[1]	Benefits and Allowances[2]	Total	Total
Chair	$ 49	$ –	$ 49	$ 44
Board members	149	4	153	161
President and Managing Director	127	56	183	207
Vice President, Field Operations	105	30	135	163
Vice President, Finance and Administration	119	38	157	157
Vice President, Research, Information and Development	119	37	156	168
Vice President, Information Technology and Administrative Services	122	39	161	143

(1) Salary and wages are fees for Chair and Board members and regular base pay for employees.

(2) Benefits and allowances include employer's share of all employee benefits, including health care, flexible health, dental and vision care allowance, group life insurance, pensions, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation, professional memberships, vacation payouts and achievement bonus. No amount is included in benefits and allowances for an automobile provided to the President and Managing Director.



AFSC Head Offices

LACOMBE:
5718 - 56 Avenue
Lacombe, Alberta
T4L 1B1
(403) 782-8200

CAMROSE:
4910 - 52 Street
Camrose, Alberta
T4V 4E8
(780) 679-1311

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